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H PLEASE PASS TO CODEL OBERSTAR
USEU FOR MORENSKI

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SUBJECT: FRANCE: SCENESETTER FOR CODEL OBERSTAR VISIT APRIL
2-6

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Summary

¶1. (SBU) We would like to extend a warm welcome to Codel Oberstar for your April 3 - 6 visit to France. During your stay here you will have meetings with senior French officials, including Transportation Minister Dominique Perben, Minister Delegate for Trade Christine Lagarde, and Director General of Civil Aviation Didier Lallement. We have also arranged meetings with Airbus CEO Louis Gallois, and Air France-KLM CEO Jean-Cyrill Spinetta. You will have the opportunity to tour Airbus and Fedex facilities. Fedex Express CEO David Bronczek will brief you on Fedex plans to develop intermodal freight operations at Charles de Gaulle airport. Ambassador Stapleton and Fedex will offer receptions in honor of the delegation, and we understand that the Franco-American Friendship group in the French Parliament is planning a dinner in your honor as well.

Political Landscape

¶2. (SBU) You arrive as France's political class turns towards the two rounds of presidential elections, the first of which occurs on April 22. Right-of-center candidate Nicolas Sarkozy has held a steady -- but far from insurmountable -- lead in the polls over Socialist rival Segolene Royal and centrist candidate Francois Bayrou. It now seems less likely than before that Bayrou will surpass Royal for second place in the first round, although he would have a real chance of winning if he made it to the second round. Far right candidate Jean-Marie Le Pen also can't be counted out completely from making it to the second round, as he did five years ago, but his chances look slim, and he would almost certainly lose the run-off. Domestic issues have dominated the campaign. While Sarkozy has a reputation as pro-American and an economic reformer, and Royal trots out the occasional anti-American fillip to solidify her left wing, the reality is such that we should not expect a radical post-election shift in French foreign policy regardless of who (among the frontrunners) wins. Cooperation on a range of issues, from the fight against terrorism to development, is strong. We continue to have differences on Iraq, but the French have engaged politically in the Iraq Compact process and we have come far from the 2003 nadir.

Transportation

13. (U) Dominique Perben has been Minister of Transportation since June 2005, after serving the three previous years as Minister of Justice. A native of Lyon, he developed a political base in the Lyon region as mayor of Chalon-sur-Saone, Deputy in the national assembly, and member of the regional government. As transportation minister he has emphasized strengthening public safety through reducing fatalities from automobile accidents and improving oversight of aviation safety. France continues to project strong investment in transportation infrastructure (+15% in 2007), including expansion of France's impressive high-speed rail network. The latest line linking Paris to Strasbourg in Eastern France was put into service in February.

14. (U) Key parts of transportation infrastructure have been reorganized through partial privatization or by the central government ceding pieces to regional or local governments. The French national railways (SNCF) was separated as an operating company from the underlying infrastructure (such as tracks and bridges) in 1997, in a bid to increase competition, particularly for freight services. State holdings in toll-roads were privatized in 2006, and Aeroports de Paris was partially privatized in 2006. Some local airports and ports will be ceded to local governments, just as a large chunk of secondary roadways passed from national to regional control in 2006. Labor unions and localities have questioned this policy, raising concerns that the French state is abandoning its historical commitment to providing transportation as a public service.

15. (SBU) The Minister can be expected to be positive toward the U.S./EU Open Skies agreement initialed by EU transportation ministers last week, and has supported it in public and in private. He also may wish to thank the delegation for the warm welcome given to the A-380 in the U.S., including by airports

PARIS 00001270 002 OF 004

that invested considerable sums in order to be able to receive it. He could voice concerns about potential U.S. legislation mandating 100% inspection of air cargo and/or maritime containers. He may wish to respond to U.S. opposition to the mandatory inclusion of aviation emissions from international flights in the EU's draft legislation on the Emissions Trading Scheme (ETS), an issue we believe should be dealt with in a manner consistent with international law by ICAO. We think that he will be happy to share with the Committee France's experience with high-speed rail and rail financing, as well as examples of how it has used Public Private Partnerships to finance new infrastructure such as the world's tallest suspension bridge in Millau, France.

Trade

16. (SBU) Deputy Minister for Trade Christine Lagarde has offered to host a breakfast meeting for the Codel. Lagarde has close ties to the U.S. Prior to entering government, she was Chairman of Baker and McKenzie's Global Executive Committee in Chicago. A specialist on anti-trust and labor law, Lagarde has been in her position since June of 2005, and has particular responsibility for developing French exports and representing French interests in the World Trade Organization, including the Doha round of trade negotiations, and the U.S.-EU aircraft subsidies dispute. She is also responsible for encouraging inward investment to France. Her Ministry is broadly supportive of U.S. objectives to lessen regulation and expand trade but this is a difficult "sell" to the rest of the French government. In particular, differences over agricultural policy, both at the European level with respect to WTO Doha Development Agenda objectives, as well as the national level regarding agricultural biotech approvals, continue to dominate our trade relations with France.

DGAC

¶7. (U) Didier Lallement, former chief of staff to Transportation Minister Dominique Perben was named as the new head of the French civil aviation authority (DGAC) in late-February, replacing the long-serving former director Michel Wachenheim. A career civil-servant, he has no prior background in civil aviation. One area for possible discussion is the current organization and financing of civil aviation in France, which has undergone considerable change in recent years. In the past year the DGAC has extended its fee-for-service model from certification and oversight to new areas such as pilot licensing, as the French government as a whole has moved to implement a performance based budget and financing system (LOLF). Moreover, the DGAC also receives revenues from the charges levied by Eurocontrol for air traffic control services, based on a formula based on weight and distance. A Civil Aviation tax levied by operators on passengers covers administrative, safety and security and public service obligations.

¶8. (SBU) DGAC will probably want to discuss U.S.-French recent cooperation on aviation security, which they see as much improved. A significant number of Air France flight diversions due to suspected No-Fly name matches troubled our relations in previous years, but none have occurred since September 2005, greatly improving the atmosphere for discussing aviation security. After several years of opposition, the French now permit Air France to work directly with TSA on implementation of all U.S. security requirements. The roll-out of new regulations on liquid explosives last summer on very short notice was seen by all sides as a success story. DGAC may raise long-standing concerns about what it sees as the need for greater harmonization and mutual recognition of U.S. and EU regulations on aviation security, potential U.S. requirements for 100% screening of air cargo, or its views on a new agreement on furnishing of Passenger Name Record (PNR) data to the U.S., which we will soon begin negotiating with the EU. DGAC is also concerned about other issues such as U.S. rulemaking about handicapped access on international flights.

Airbus

¶9. (U) Airbus has fallen on hard times lately, as it struggles to overcome a cost disadvantage compared to Boeing due to the

PARIS 00001270 003 OF 004

unfavorable Euro/Dollar exchange rate, production problems that have caused costly delays in what was to have been its flagship extra-wide body A-380, and design modifications to meet customers' needs that have delayed the launch of the new medium range A-350 (a competitor to Boeing's 787). Nonetheless, Airbus' order book remains strong. Louis Gallois who took the helm as Chairman of Airbus in 2006, is also co-chair of mother company European Aeronautic Defense Space company (EADS), and is widely admired for the business and political acumen he demonstrated in reforming the French National Railway system. EADS announced 2006 financial results dominated by losses due to A-380 delays despite record numbers of aircraft delivered (434).

It projected that losses would continue in 2007 as it worked through A-380 problems, incurred charges due to the recently Power-8 restructuring program announced in February, and increased spending to meet growing R&D and A-350 launch expenses. Power-8 included a 10,000 workforce reduction (4,300 in France), the sale of five industrial sites (two in France), and a plan to outsource 50 percent of production, up from 30 percent now. Reaction from French labor groups and politicians was swift, with workers in several sites staging strikes and questioning how layoffs could be justified when Airbus' order book was full.

¶10. (SBU) In statements to the media in the past month, Louis Gallois has sought to calm an atmosphere agitated by the French presidential campaign, as politicians rivaled each other in proposals for the state to come to Airbus' rescue. Gallois has

defended the restructuring and downplayed Airbus' immediate needs for cash, refusing to rule out an increase in capital but noting that this was not an "urgent" need. The eventual success or failure of "Power 8" could have implications for Airbus' future needs for financing, and future decisions about how much launch aid the company might seek from European governments for the A-350, an issue which has been discreetly pushed to the future so as not to complicate the U.S./E.U. aircraft subsidy trade dispute currently before the WTO. Any change in the company's capital structure would complicate the Franco-German pact which balances the two countries' public and private shareholders' participation in the company and its governance, and which has generally been seen as one source of Airbus' current problems. Gallois is widely perceived to be trying to put the company on a sounder business footing and to steer clear of excessive political interference. But it is unclear to what extent he can avoid the political and national interests that have dominated the management of EADS since it was created in 1999.

Air France

¶11. (U) After a distinguished career in public administration, Jean-Cyrill Spinetta became CEO of Air France in 1997, taking the company through a successful merger with Dutch airline KLM in 2004. It was a founding member of the Sky Team Alliance, which now numbers 10 airlines, including U.S. carriers Delta, Continental and Northwest. The new company has maintained its dual identity, and has been impressively profitable in difficult economic circumstances since the merger. Air France retains a close relationship with the French Government (which still owns 18.7% of its shares). Its fleet is primarily Airbus, though it is also a major customer for Boeing, and particularly for its 777 aircraft. It recently announced strong financial results for the first three quarters of 2006, continuing to see good growth in overall revenues, profits, and cash flow.

¶12. (SBU) Air France strongly supported the U.S./EU Open Skies agreement, and could be particularly interested in discussing its impact on Air France's business and commercial strategy, particularly its hub at Charles de Gaulle airport and its desire to further develop the commercial possibilities of its alliance with U.S. SkyTeam partners. Given its history of costly flight diversions based on No-Fly name matches, Spinetta may mention Air France's interest in improved harmonization of requirements and technological standards for aviation security between the U.S. and EU. As a partner with Fedex and the French government in seeking to develop the intermodal freight capacity of Charles de Gaulle Airport, its views on this subject may also be of interest to the delegation.

Fedex

¶13. (U) Fedex chose Charles de Gaulle airport (CDG) to be its PARIS 00001270 004 OF 004

European hub in 1999. The investments it has made in tandem with the CDG airport have made it the largest cargo platform in Europe. Fedex Express CEO David Bronczek is expected to brief you on the company's plans to expand its intermodal freight operations there. Fedex currently has the capacity of processing up to 30,000 packages and 30,000 documents an hour, and it expects its business at CDG will continue to grow. Noise restrictions on nighttime operations at Charles de Gaulle are a source of concern for Fedex given its long-term plans for expansion at the hub. This is one reason it has partnered with the airport, other logistics companies, and the French government to develop freight interconnections with the high-speed train line that passes close by, which would provide alternative ways to service major economic regions to the North and East, freeing up airfreight capacity for additional growth.

